



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

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# **Delivery Unit Optimization Initiative**

## **Audit Report**

December 6, 2012

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**Report Number MS-AR-13-001**



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# HIGHLIGHTS

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## **BACKGROUND:**

The U.S. Postal Service is currently facing many financial challenges with declining mail volumes and revenue. Consequently, it has implemented several initiatives intended to reduce costs. One of these initiatives, Delivery Unit Optimization (DUO), involves relocating letter carriers out of local post offices, stations, and branches and into centralized delivery offices to reduce clerk and carrier workhours, building maintenance expenses, and transportation costs.

The Postal Service established guidelines in December 2010 for implementing the DUO initiative. Since fiscal year 2011, about 1,500 DUO consolidations have been implemented.

In response to a request from Senator Charles Grassley (Iowa), our objectives were to determine whether the Postal Service complied with established DUO initiative guidelines and whether the DUO initiative reduced costs and improved operational efficiency.

## **WHAT THE OIG FOUND:**

Although management generally complied with DUO guidelines, the guidelines were limited and did not provide district management with a well-defined methodology to project and validate savings and efficiencies. Thus, local managers developed their own

methodologies to project and validate savings, which led to inconsistent consolidation determinations. Also, management did not always perform and document post consolidation reviews. As a result, management has not effectively tracked the results of the DUO initiative, and we could not determine whether the 1,500 consolidations have reduced costs or improved operational efficiencies in delivery units.

However, we judgmentally selected five sites for detailed review, and found mixed results. Three of the five sites had reduced costs after consolidation, while two had increased costs. Furthermore, none of the five sites showed improved efficiencies 6 months after consolidation.

## **WHAT THE OIG RECOMMENDED:**

We recommended the acting vice president, Delivery and Post Office Operations, revise DUO guidelines to include a well-defined, consistent methodology for projecting cost savings and operational efficiencies. In addition, develop a process to ensure the revised guidelines are applied consistently and post consolidation reviews are performed to accurately validate savings and efficiencies.

[Link to review the entire report](#)



December 6, 2012

**MEMORANDUM FOR:** GREG G. GRAVES  
ACTING VICE PRESIDENT, DELIVERY AND POST  
OFFICE OPERATIONS

A rectangular box containing a handwritten signature in cursive that reads "Darrell E. Benjamin, Jr." with a black dot at the end of the signature.

**FROM:** Darrell E. Benjamin, Jr.  
Deputy Assistant Inspector General  
for Revenue and Innovation

**SUBJECT:** Audit Report – Delivery Unit Optimization Initiative  
(Report Number MS-AR-13-001)

This report presents the results of our audit of the Delivery Unit Optimization Initiative (Project Number 12RG020EN000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Sean D. Balduff, deputy director, Sales and Marketing, or me at 703-248-2100.

Attachments

cc: Megan J. Brennan  
Jeffrey C. Day  
Elizabeth Schaefer  
Corporate Audit and Response Management

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## Introduction

This report presents the results of our audit of the Delivery Unit Optimization (DUO) Initiative (Project Number 12RG020EN000). On September 23, 2011, the U.S. Postal Service Office of Inspector General (OIG) received an inquiry from the office of the Honorable Charles E. Grassley, U.S. Senator from Iowa. The report responds to his request to review the DUO initiative and addresses operational risks. Our objectives were to determine whether the U.S. Postal Service complied with established DUO initiative guidelines and whether the initiative reduced costs and improved operational efficiency.

The Postal Service is currently facing many financial challenges with declining mail volumes and revenue. To help address these financial challenges, the Postal Service has implemented several initiatives intended to reduce costs. One of these initiatives, DUO, involves relocating letter carriers out of local post offices, stations, and branches and consolidating them into centralized delivery offices to reduce clerk and carrier workhours, building maintenance expenses, and transportation costs.

In December 2010, the Postal Service established limited guidelines for district management to use when implementing DUO consolidations. The guidelines provided a process checklist;<sup>1</sup> sample letters for notifying Congress, customers, and employees; and a mapping tool<sup>2</sup> for selecting potential consolidation sites. Since fiscal year (FY) 2011, about 1,500 DUO consolidations have been implemented. See [Appendix A](#) for additional information about this audit.

## Conclusion

District management generally complied with DUO guidelines when implementing consolidations but we could not determine whether overall, the initiative reduced costs and improved operational efficiencies in delivery units. DUO guidelines were limited and did not provide district management with a well-defined methodology to project and validate savings and efficiencies. Consequently, district management developed various methodologies to make these calculations, which led to inconsistent consolidation determinations. In addition, district management did not always perform and document post consolidation reviews to assess savings and efficiencies. As a result, management has not effectively tracked the results of the DUO initiative and we could not determine whether the 1,500 consolidations have reduced costs or improved operational efficiencies in delivery units. However, we judgmentally selected five sites for detailed review and found mixed results. Three of the five sites had reduced costs after

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<sup>1</sup> The DUO checklist included 84 steps in five categories that DUO coordinators need to complete before implementation of a DUO. The five categories are: Communication, Office, Clerk, Rural, and City Carriers.

<sup>2</sup> According to Postal Service management, the Electronic Facilities Management System mapping tool is used within the initial steps to determine where opportunities exist for moving carrier operations. The information from the tool along with local knowledge is used to make determinations.

consolidation, while two had increased costs. Furthermore, none of the five sites showed improved efficiencies 6 months after consolidation.

## Delivery Unit Optimization Guidelines

District management used inconsistent methodologies to project cost savings related to DUO consolidations. This occurred because the DUO guidelines did not contain specific guidance regarding the methodologies for the districts to use to project savings before performing consolidations. Therefore, district management developed their own inconsistent methodologies for making these calculations. During our visits to five consolidated sites<sup>3</sup> in four districts, we noted the following differences in how management projected anticipated savings

- All five consolidated DUO sites projected savings using different periods such as 1 month, 6 months, and 1 year after the consolidations.
- Three of the sites<sup>4</sup> used cost line items from the Financial Performance Report (FPR);<sup>5</sup> however, the line items used were inconsistent among the three sites.
- Two of the sites<sup>6</sup> prepared business plans, which included items such as cost analyses, general notifications, employee movement, and savings analyses.<sup>7</sup>
- One of the sites<sup>8</sup> also used a 10-Year Net-Present Value<sup>9</sup> to determine the savings; however, management was not able to provide a copy of the savings documentation for our review.

In May 2012, headquarters management developed an electronic worksheet located on the Change Suspension Discontinuance Center (CSDC) website<sup>10</sup> for district DUO coordinators to identify and report projected cost savings for all consolidations planned to date.<sup>11</sup> However, headquarters management neither defined nor provided a specific methodology for making key calculations for items contained in the worksheet such as other costs, other savings, and transportation. We judgmentally selected and reviewed the electronic worksheets for 45 DUO consolidated sites and found that 27 (60 percent) of the sites had not completed the worksheet as of July 31, 2012.<sup>12</sup>

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<sup>3</sup> The five consolidated sites we visited were [REDACTED]

[REDACTED] South Milwaukee, Franklin, and Asheboro.

<sup>5</sup> The FPR is an accounting period report available in the Accounting Data Mart (ADM). The FPR shows items such as current period and year-to-date actual, plan, and same period last year revenue and expenses. It segregates activities by categories such as revenue, salary and benefits, and supplies and services.

<sup>6</sup> Clarkston and Grundy Center.

<sup>7</sup> One of these sites only provided cost analysis information on its business plan.

<sup>8</sup> Grundy Center.

<sup>9</sup> Net present value is the value today of a future stream of costs or benefits.

<sup>10</sup> An interactive website that allows districts and areas to view material related to suspensions or discontinuances of post offices and to enter data to make those changes.

<sup>11</sup> Before May 2012, the Postal Service did not have an electronic system to track projected saving.

<sup>12</sup> The requirement to complete the estimated cost savings worksheet applied to all consolidations, whether they occurred before May 2012 or after.

Having a well-defined and consistent process to project and validate potential cost savings ensures savings and efficiencies are reported correctly for each DUO consolidation.

### Post Consolidation Reviews

District management did not always perform and document post consolidation reviews as required. The DUO guidelines<sup>13</sup> required district management to create (1) a summary of costs and savings 30 days after consolidation, (2) a post evaluation review within 45 days to ensure projected savings were realized and (3) an after cost study semiannually. However, the guidelines did not have a defined methodology for calculating and validating the savings. Management at two<sup>14</sup> of the four districts we visited tracked costs subsequent to the consolidations at the 85 DUO sites within their districts. However, management at the other two districts<sup>15</sup> could not provide support for any of the required post consolidation reviews related to about 97 consolidations implemented in FY 2011.

In addition, the four districts did not conduct a review of operational efficiency after any of their consolidations. The guidelines required district management to conduct a follow-up review of administrative and operational efficiency. However, the guidelines did not provide guidance regarding the procedures for determining operational efficiencies or the timeframes for completing the review.

In coordination with Postal Service management, we developed a methodology to analyze cost savings and efficiencies for the five consolidated sites we visited. Based on our analysis, two sites did not realize cost savings 6 months after their consolidation was completed. In addition, none of the five sites we visited showed improved efficiencies 6 months after consolidation. See [Appendix B](#) for additional information.

Performing and documenting post evaluation reviews ensures the Postal Service can determine whether the consolidations resulted in cost savings or improved efficiencies. Additionally, these reviews are useful in evaluating the success of the overall DUO initiative and if process modifications are warranted.

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<sup>13</sup> Delivery Unit Optimization Guidelines, Version 1.1, dated December 2010.

<sup>14</sup> Lakeland and Greensboro.

<sup>15</sup> Hawkeye and Atlanta.

## Recommendations

We recommend the acting vice president, Delivery and Post Office Operations:

1. Revise delivery unit optimization guidelines to include a well-defined, consistent methodology for projecting cost savings and operational efficiencies.
2. Develop a process to ensure the revised guidelines are applied consistently and post consolidation reviews are performed to accurately validate savings and efficiencies.

## Management's Comments

Management agreed with the findings and recommendations. Regarding recommendation 1, management stated they will work with the Finance department to develop a standardized financial workbook that will include a well-defined, consistent methodology for projecting cost savings and operational efficiencies. Language from the financial workbook will be added to the DUO guidebook. Management's target date for implementation is March 1, 2013.

Regarding recommendation 2, management stated they are developing a process within CSDC that will ensure the revised guidelines are applied consistently throughout each DUO implementation and will include an ongoing process to validate savings. In addition, they will use a 10-year net present value to realize all potential savings. Management's target date for implementation is March 1, 2013.

See [Appendix C](#) for management's comments, in their entirety.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report.

The OIG considers both recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

## Appendix A: Additional Information

### Background

The Postal Service developed the DUO initiative, in December 2010, as a means to optimize the retail network and to improve operational efficiency by relocating letter carriers out of local post offices, stations, and branches and consolidating them into centralized delivery offices. These consolidations are designed to reduce facility space requirements, which decreases lease expenses and building maintenance costs. In addition, the consolidations are intended to reduce costs and improve operational efficiencies in areas such as clerk and carrier workhours and transportation.

The Postal Service established guidelines for implementing the DUO initiative, which included limited instructions for selecting potential consolidation sites. Since FY 2011, the Postal Service has implemented about 1,500 DUO consolidations.

### Objectives, Scope, and Methodology

Our objectives were to determine whether the Postal Service complied with established DUO initiative guidelines and whether the initiative reduced costs and improved operational efficiency. To accomplish our objectives, we judgmentally selected sites to visit based on size and location, and discussions with headquarters management and union officials. We visited the following losing and gaining delivery units and reviewed detailed data related to their DUO consolidation efforts.

**Table 1. DUO Implementation Sites and Dates**

District Name	Losing Delivery Unit	Gaining Delivery Unit	Implementation Date
Greensboro, NC	Ramseur, NC	Asheboro, NC	4/23/2011
Atlanta, GA	Avondale Estates, GA Scottsdale, GA	Clarkston, GA	5/21/2011
Hawkeye, IA	Eldora, IA	Grundy Center, IA	8/27/2011
Lakeland, WI	Greendale, WI Cudahy, WI	Franklin, WI South Milwaukee, WI	11/5/2011

Source: CSDC Website

We interviewed headquarters and district managers, postmasters, and officers-in - charge to determine whether DUO guidelines were followed, and consolidation efforts were effective and generated savings. We also interviewed the president of the National League of Postmasters to discuss league concerns related to the DUO initiative. In

addition, we reviewed estimated cost savings worksheets maintained on the CSDC website for 45 judgmentally selected consolidated sites.

We conducted this performance audit from January through December 2012, in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We relied on data obtained from the Enterprise Data Warehouse (EDW),<sup>16</sup> Rural Delivery Variance (RDV) and City Delivery Variance (CDV),<sup>17</sup> and Customer Service Variance (CSV)<sup>18</sup> databases. We did not audit the EDW, RDV, CDV, and CSV systems but performed limited data integrity tests to support our data reliance. We discussed our observations and conclusions with management on October 23, 2012, and included their comments where appropriate.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Retail Customer Service Operations Realignment in the Hawkeye District</i>	MS-AR-11-002	3/30/11	\$25.8 million over the next 10 years.
<p><b>Report Results:</b>                      Management agreed with our findings, recommendation, and \$25.8 million of monetary impact in funds put to better use. Management also agreed to realign customer service operations and explore opportunities to realign 75 percent of the Customer Service operations identified on the OIG suggested list by December 2012.</p>			

<sup>16</sup> The EDW is a single repository for managing all of the Postal Service's data assets and provides data to a wide variety of users.

<sup>17</sup> The Rural and City Delivery Variances (RDV and CDV) determine the percent to standard by dividing actual office hours by standard office hours. By using less hours than standard (percent to standard below 100 percent), the office will show that it is working at a high efficiency level.

<sup>18</sup> The CSV program calculates actual vs. earned workhour performance against standardized target productivity expectations.

## Appendix B: Cost Savings and Operational Efficiencies

### Cost Savings

We conducted our own analysis for the five DUO sites we visited to determine the savings resulting from the consolidations. To perform our analysis we compared specific FPR Line Item costs 1 month before the DUO implementation with the same costs 6 months after the consolidation. The costs we used in our analysis are listed in Table 2.

**Table 2. FPR Line Items Used in Our Analysis**

FPR Line #	FPR Line Description
12	OPERATIONS-DEL SERV-RURAL
14	OPERATIONS-CUSTOMER SERVICE
18	ADMINISTRATION
22	OPERATIONS-CITY DELIVERY
2A	PERFORMANCE BASED COMPENSATION
2J	WORKERS' COMPENSATION CHARGEBACK
31	SUPPLIES
33	SUPPLIES-ISSUED FROM INVENTORY
34	SERVICES
3F	CONTRACT JOB CLEANERS
3H	VEHICLE MAINTENANCE SERVICES
3J	VEHICLE HIRE
3L	RURAL CARRIER EQUIPMENT MAINTENTANCE
41	RENT
42	UTILITIES & HEATING FUEL
3S	OTHER TRANSPORTATION
3P	HIGHWAY TRANSPORTATION

Sources: EDW – ADM.

We developed and discussed our methodology with finance managers at the districts we visited and with headquarters management. We used the same methodology to determine savings at each of the five sites. As indicated in [Table 3](#), three of the five sites had reduced costs after consolidation, while two incurred additional costs 6 months after consolidation.

**Table 3. Savings/(Additional Costs) 6 Months After Consolidation**

<b>Losing Facility</b>	<b>Gaining Facility</b>	<b>6 Months After Consolidation Savings (Costs)<sup>19</sup></b>
Ramseur, NC	Asheboro, NC	\$39,395
Avondale Estates, GA	Clarkston, GA	(\$67,618)
Scottdale, GA		
Eldora, IA	Grundy Center, IA	(\$66)
Greendale, WI	Franklin, WI	\$158,476
Cudahy, WI	South Milwaukee, WI	\$99,423

Source: U.S. Postal Service EDW System.

### Operational Efficiencies

We conducted our own analysis at the five DUO sites we visited to determine whether efficiencies improved after consolidation. We used metrics from Postal Service variance programs traditionally used in operational reviews.

Our analysis of operational efficiency for the DUO consolidations implemented for three rural and two city delivery units showed that performance stayed the same or worsened 6 months after the consolidations when compared to 1 month before the consolidations. See [Table 4](#) for performance results (higher scores indicate a lower level of performance).

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<sup>19</sup> We believe the methodology we used is reasonable and was appropriately coordinated with Postal Service officials; however, the use of a different methodology or a different time period may have resulted in reporting different amounts of savings and costs.

**Table 4. RDV and CDV: Before and After Consolidation**

<b>Delivery Unit Name</b>	<b>Type of Delivery</b>	<b>Performance 1 Month Before Consolidation</b>	<b>Performance 6 Months After Consolidation</b>
Asheboro, NC	Rural	98	101
Grundy Center, IA	Rural	100	101
Franklin Branch, WI	Rural	102	102
Clarkston, GA	City	67	77
South Milwaukee, WI	City	66	89

Source: Postal Service Variance Program for rural and city delivery.

Our comparison of CSVs at all five delivery units revealed that operational efficiency did not improve 6 months after the consolidations compared to 1 month before the consolidations. Higher performance scores indicate a higher level of performance. See Table 5 for performance results.

**Table 5. CSV: Before and After Consolidation**

<b>Delivery Unit Name</b>	<b>Type of Delivery</b>	<b>Performance 1 Month Before Consolidation</b>	<b>Performance 6 Months After Consolidation</b>
Asheboro, NC	Rural	87	83
Grundy Center, IA	Rural	144	125
Franklin Branch, WI	Rural	92	87
Clarkston, GA	City	101	75
South Milwaukee, WI	City	130	100

Source: Postal Service CSV Program.

## Appendix C: Management's Comments

GREG G. GRAVES  
A/VICE PRESIDENT  
DELIVERY AND POST OFFICE OPERATIONS



November 29, 2012

JUDITH LEONHARDT

SUBJECT: Delivery Unit Optimization Initiative Audit Report MS-AR-12-DRAFT

Thank you for the opportunity to review and comment on the subject draft audit report.

The U.S. Postal Service (USPS) agrees with the general precept of this report. There were no potential or projected savings articulated within the report and the USPS agrees with recommendations 1 and 2.

This report and management's response do not contain information that may be exempt from disclosure under the Freedom of Information Act.

**Recommendation 1:** Revise delivery unit optimization guidelines to include a well-defined, consistent methodology for projecting cost savings and operational efficiencies.

**Response:** Management agrees with this recommendation. Headquarters will work with the finance department to develop a standardized financial workbook, which will include the well-defined, consistent methodology for projecting cost savings and operational efficiencies. Language from that financial workbook will then be added to the Delivery Unit Optimization guidebook.

**Target Implementation Date:**

March 1, 2013

**Recommendation 2:** Develop a process to ensure the revised guidelines are applied consistently and post consolidation reviews are performed to accurately validate savings and efficiencies.

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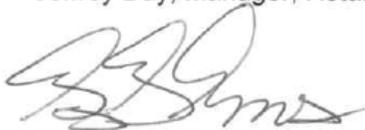
**Response:** Management agrees with this recommendation. The USPS is developing a process within the Change Suspension Discontinuance Center (CSDC) that will ensure the revised guidelines are applied consistently throughout implementation; however, the process that is being developed includes a 10-year net present value to realize all potential savings. Part of this process will have an ongoing validation process. Implementation tracking will be completed through the CSDC program.

**Target Implementation Date:**

March 1, 2013

**Responsible Official:**

Jeffrey Day, Manager, Retail Operations

A handwritten signature in black ink, appearing to read 'GGG', is written over the printed name of Gregory G. Graves.

Gregory G. Graves